

**REPORT OF THE AUDIT OF THE
MERCER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable John D. Trisler, Mercer County Judge/Executive

Members of the Mercer County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Tichenor & Associates, LLP to perform the audit of these financial statements. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Mercer County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MERCER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

Tichenor & Associates, LLP, has completed the Mercer County Fiscal Court audit for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Mercer County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$5,959,237 as of June 30, 2005. The fiscal court had unrestricted net assets of \$4,110,255 in its governmental activities as of June 30, 2005.

Deposits:

The fiscal courts deposits were insured and collateralized by bank securities or bonds.

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable John D. Trisler, Mercer County Judge/Executive

Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Mercer County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Mercer County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Mercer County, Kentucky, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has chosen not to present the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

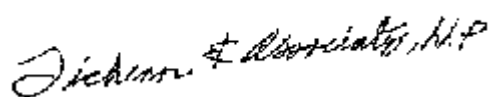
The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John D. Trisler, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mercer County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2005 on our consideration of Mercer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion in the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -
December 15, 2005

MERCER COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

John D. Trisler	County Judge/Executive
Wayne Russell	Magistrate
J.B. Claunch	Magistrate
Larry Peyton	Magistrate
Bill Waggener	Magistrate
Wayne Jackson	Magistrate
Eddie Burton	Magistrate

Other Elected Officials:

Douglas L. Greenburg	County Attorney
Cleo Baker, Jr.	Jailer
Ronnie Compton	County Clerk
Rose Bishop	Circuit Court Clerk
Ralph Anderson	Sheriff
Neila L. Monroe	Property Valuation Administrator
Sonny Ransdell	Coroner

Appointed Personnel:

Gayle Horn	County Treasurer
Sandy Sanders	Occupational Tax Collector
Billy Humphrey	Road Supervisor

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MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,160,476
Total Current Assets	<u>4,160,476</u>

Noncurrent Assets:

Capital Assets - Net of Accumulated

Depreciation:

Land and Land Improvements	54,884
Buildings and Building Improvements	671,914
Vehicles	180,666
Machinery and Equipment	296,589
Infrastructure	<u>594,708</u>

Total Noncurrent Assets	<u>1,798,761</u>
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Total Assets	<u><u>5,959,237</u></u>
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NET ASSETS

Invested in Capital Assets,

Net of Related Debt	1,798,761
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Restricted	50,221
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Unrestricted	<u>4,110,255</u>
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Total net assets	<u><u>\$ 5,959,237</u></u>
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The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Functions/Programs Reporting Entity	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Assets Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Totals
Primary Government:					
Governmental Activities:					
General Government	\$ 702,148	\$ 96,979	\$ 215,362	\$ (389,807)	\$ (389,807)
Protection to Persons and Property	894,798	22,804		(871,994)	(871,994)
General Health and Sanitation	316,056	9,414	34,875	(271,767)	(271,767)
Social Services	60,314			(60,314)	(60,314)
Recreation and Culture	172,877			(172,877)	(172,877)
Roads	630,887		429,410	(201,477)	(201,477)
Capital Projects	105,972			(105,972)	(105,972)
Administration	755,604			(755,604)	(755,604)
Transportation Facilities and Services	8,510			(8,510)	(8,510)
Total Governmental Activities	\$ 3,647,166	\$ 129,197	\$ 679,647	\$ (2,838,322)	\$ (2,838,322)
General Revenues:					
Taxes:					
Real Property Taxes					\$ 617,380
Personal Property Taxes					41,719
Motor Vehicle Taxes					126,809
Occupational Taxes					1,141,174
Other Taxes					546,618
Surcharges					61,483
Excess Fees					69,650
Interest					72,848
Miscellaneous Revenues					522,211
Total General Revenues					3,199,892
Change in Net Assets					361,570
Net Assets - Beginning (restated)					5,597,667
Net Assets - Ending					\$ 5,959,237

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005

MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Jail Fund	Net Profit Fund	Non- Major Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 1,137,708	\$ 960,735	\$ 476,080	\$ 1,420,190	\$ 165,763	\$ 4,160,476
Total assets	<u>\$ 1,137,708</u>	<u>\$ 960,735</u>	<u>\$ 476,080</u>	<u>\$ 1,420,190</u>	<u>\$ 165,763</u>	<u>\$ 4,160,476</u>
FUND BALANCES						
Reserved for:						
Encumbrances	\$ 15,911	\$ 5,852	\$ 405	\$ 146	\$ 335	\$ 22,649
Landfill					49,886	49,886
Unreserved:						
General Fund	1,121,797					1,121,797
Special Revenue Funds		954,883	475,675	1,420,044	115,542	2,966,144
Total Fund Balances	<u>\$ 1,137,708</u>	<u>\$ 960,735</u>	<u>\$ 476,080</u>	<u>\$ 1,420,190</u>	<u>\$ 165,763</u>	<u>\$ 4,160,476</u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 4,160,476
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	2,964,874
Accumulated Depreciation	<u>(1,166,113)</u>
Net Assets Of Governmental Activities	<u>\$ 5,959,237</u>

The accompanying notes are an integral part of the financial statements.

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MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	General Fund	Road Fund	Jail Fund	Net Profit Fund	Non- Major Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 1,067,452	\$	\$	\$ 1,141,174	\$	\$ 2,208,626
In Lieu Tax Payments	4,452					4,452
Excess Fees	69,650					69,650
Licenses and Permits	56,532					56,532
Intergovernmental	597,811	632,360	90,119		93,247	1,413,537
Charges for Services	48,542		11,058		9,414	69,014
Miscellaneous	23,702	39,724	868		49,784	114,078
Interest	23,389	8,937	9,759	29,875	887	72,847
Total Revenues	<u>1,891,530</u>	<u>681,021</u>	<u>111,804</u>	<u>1,171,049</u>	<u>153,332</u>	<u>4,008,736</u>
EXPENDITURES						
General Government	804,234	10,800		33,541		848,575
Protection to Persons and Property	318,786		675,439			994,225
General Health and Sanitation	79,157	1,256			235,644	316,057
Social Services	60,314					60,314
Recreation and Culture	172,877					172,877
Roads		873,233				873,233
Transportation Facilities		8,510				8,510
Capital Projects	104,452	1,520				105,972
Administration	651,138	104,305	56		105	755,604
Total Expenditures	<u>2,190,958</u>	<u>999,624</u>	<u>675,495</u>	<u>33,541</u>	<u>235,749</u>	<u>4,135,367</u>
Over						
Expenditures Before Other						
Financing Sources (Uses)	<u>(299,428)</u>	<u>(318,603)</u>	<u>(563,691)</u>	<u>1,137,508</u>	<u>(82,417)</u>	<u>(126,631)</u>
Other Financing Sources (Uses)						
Transfers From Other Funds	862,254		525,000		125,000	1,512,254
Transfers To Other Funds	<u>(525,000)</u>	<u>(62,254)</u>		<u>(925,000)</u>		<u>(1,512,254)</u>
Total Financing Sources (Uses)	<u>337,254</u>	<u>(62,254)</u>	<u>525,000</u>	<u>(925,000)</u>	<u>125,000</u>	
Net Change in Fund Balances	37,826	(380,857)	(38,691)	212,508	42,583	(126,631)
Fund Balances - Beginning	1,099,882	1,341,592	514,771	1,207,682	123,180	4,287,107
Fund Balances - Ending	<u>\$ 1,137,708</u>	<u>\$ 960,735</u>	<u>\$ 476,080</u>	<u>\$ 1,420,190</u>	<u>\$ 165,763</u>	<u>\$ 4,160,476</u>

The accompanying notes are an integral part of the financial statements.

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**MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (126,631)
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Governmental Funds Report Capital Outlay As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.

Capital Outlay	660,451
Depreciation Expense	<u>(172,250)</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 361,570</u></u>
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TO THE FINANCIAL STATEMENTS**

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MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1 Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivable, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

B. Reporting Entity

The financial statements of Mercer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14 and GASB 39, there are no component units which merit consideration as part of the reporting entity.

Additional – Mercer County Constitutional Elected Officials

- County Attorney
- Jailer
- County Clerk
- Circuit Court Clerk
- Sheriff
- Property Valuation Administrator
- Coroner

Kentucky law provides for election of the above officials from the geographic area constituting Mercer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or

MERCER COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005
 (Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

improvement of those assets. 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation. 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as major.

D. Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Net Profit Fund - This fund is for the collection of local payroll taxes and local net profit tax. The primary sources of revenue for this fund are payment of taxes for annual net profit and payment of payroll taxes. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, and Landfill Fund.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

E. Cash and Cash Equivalents

Cash includes amounts in bank accounts and certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, infrastructure (roads and bridges) machinery, equipment, and intangibles that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 12,500	10-45
Buildings and Building Improvements	\$ 25,000	10-60
Infrastructure	\$ 10,000	10-40
Machinery and Equipment	\$ 5,000	3-20
Intangibles	\$ 5,000	3-40

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into restricted and unrestricted components, with unrestricted considered available for new spending.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, and encumbrances.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1 Summary of Significant Accounting Policies (Continued)

H. Legal Compliance - Budget

The Mercer County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

I. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Mercer County Fiscal Court: North Mercer Water District and the Mercer County Public Library.

J. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture.

The County in conjunction with the City of Harrodsburg and the City of Burgin has created the Anderson/Dean Park Board (Board), whose purpose is to oversee the daily maintenance and administration of all business regarding the Anderson/Dean Park. The Board is composed of thirteen board members with six members appointed by the County Judge/Executive, with the approval of the fiscal court, six members appointed by the City of Burgin's Mayor, with the approval of the city council. The County and the City of Harrodsburg finance equally the operations budget of the Park. The City of Burgin has elected to make no financial contribution. The County and the City of Harrodsburg jointly own the Park.

The Greater Harrodsburg/Mercer County Planning and Zoning Commission, whose purpose is to carry out a joint county/city planning program in order to assure the development of public and private property in the most appropriate relationships and to promote orderly growth, is a joint commission of Mercer County and the City of Harrodsburg. The County Judge/Executive with the approval of fiscal court appoints three members and the Mayor with the approval of the city council appoints three members. The County has no equity interest.

The Harrodsburg/Mercer County Industrial Development Authority, whose purpose is to acquire and develop industrial sites and plants for the community, is a joint board of Mercer County and the City of Harrodsburg. The County Judge/Executive with the approval of fiscal court appoints three members and the Mayor with the approval of the city council appoints three members. The County has no equity interest.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 2 Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2005, the County's deposits were fully insured or collateralized at a 100% level.

Note 3 Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer, defined benefit pension plan which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4 Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 50,000	\$ 4,884	\$	\$ 54,884
Total Capital Assets Not Being Depreciated	50,000	4,884		54,884
Capital Assets, Being Depreciated:				
Buildings	768,528	224,279		992,807
Equipment	542,609	9,385		551,994
Vehicles	561,740	104,984		666,724
Infrastructure	381,546	316,919		698,465
Total Capital Assets Being Depreciated	2,254,423	655,567		2,909,990
Less Accumulated Depreciation For:				
Buildings	(292,092)	(28,801)		(320,893)
Equipment	(223,895)	(31,510)		(255,405)
Vehicles	(441,253)	(44,805)		(486,058)
Infrastructure	(36,623)	(67,134)		(103,757)
Total Accumulated Depreciation	(993,863)	(172,250)		(1,166,113)
Total Capital Assets, Being Depreciated, Net	1,260,560	483,317		1,743,877
Governmental Activities Capital Assets, Net	\$ 1,310,560	\$ 488,201	\$	\$ 1,798,761

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 52,793
Protection to Persons and Property	1,641
Roads	<u>117,816</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 172,250</u>

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5 Interlocal Cooperation Agreement

Mercer County has entered into an Interlocal Cooperation Agreement with Boyle County to share in the cost of a regional jail facility. The facility will be owned by Boyle County. Mercer County agrees to pay a percentage, not below 35%, nor to exceed 50%, of the yearly costs in exchange for use of the facility for Mercer County prisoners.

Note 6 Operating Lease

Mercer County was committed to a lease agreement with IOS Capital for a copier. The agreement requires a monthly payment of \$124 for 48 months to be completed in March 2008. The total balance of the agreement was \$3,968 as of June 30, 2005.

Note 7 Insurance

For the fiscal year ended June 30, 2005, Mercer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8 Solid Waste Landfill

Mercer County Fiscal Court (the County) operated a landfill, which ceased operations on June 30, 1992. The County initiated closure operations in August 1991. Closure costs were estimated to be \$52,700 and the County completed the steps necessary to close the landfill. The County believes that it has met all federal, state, and local laws and regulations in regard to the closure of the landfill. Postclosure care consists primarily of groundwater monitoring and landscape maintenance. The County is required to file reports with the appropriate regulatory agencies regarding the findings and groundwater monitoring activities. Postclosure costs are included in the Landfill Fund. Inflation, deflation, technology, or applicable laws and regulations could affect these costs.

Note 9 Prior Period Adjustments

Beginning net assets has been increased by \$4,589 because of a prior year liability that should not have been included on the statement of net assets.

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MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,052,000	\$ 1,052,000	\$ 1,067,452	\$ 15,452
In Lieu Tax Payments	5,500	5,500	4,452	(1,048)
Excess Fees	124,717	124,717	69,650	(55,067)
Licenses and Permits	50,000	50,000	56,532	6,532
Intergovernmental Revenue	865,880	1,115,880	597,811	(518,069)
Charges for Services	52,500	52,500	48,542	(3,958)
Miscellaneous	45,000	45,000	23,702	(21,298)
Interest	19,500	19,500	23,389	3,889
Total Revenues	<u>2,215,097</u>	<u>2,465,097</u>	<u>1,891,530</u>	<u>(573,567)</u>
EXPENDITURES				
General Government	758,190	844,696	804,234	40,462
Protection to Persons and Property	411,010	439,199	318,786	120,413
General Health and Sanitation	517,900	502,341	79,157	423,184
Social Services	393,250	394,129	60,314	333,815
Recreation and Culture	179,000	179,500	172,877	6,623
Capital Projects		255,357	104,452	150,905
Administration	815,432	709,560	651,138	58,422
Total Expenditures	<u>3,074,782</u>	<u>3,324,782</u>	<u>2,190,958</u>	<u>1,133,824</u>
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	<u>(859,685)</u>	<u>(859,685)</u>	<u>(299,428)</u>	<u>560,257</u>
Financing Sources (Uses)				
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	914,635	914,635	862,254	(52,381)
Transfers To Other Funds	<u>(554,950)</u>	<u>(554,950)</u>	<u>(525,000)</u>	<u>29,950</u>
Total Other Financing Sources (Uses)	<u>359,685</u>	<u>359,685</u>	<u>337,254</u>	<u>(22,431)</u>
Net Changes in Fund Balances	<u>(500,000)</u>	<u>(500,000)</u>	<u>37,826</u>	<u>537,826</u>
Fund Balances - Beginning	<u>500,000</u>	<u>500,000</u>	<u>1,099,882</u>	<u>599,882</u>
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 1,137,708</u>	<u>\$ 1,137,708</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,636,941	\$ 1,636,941	\$ 632,360	\$ (1,004,581)
Miscellaneous	7,000	7,000	39,724	32,724
Interest	9,000	9,000	8,937	(63)
Total Revenues	<u>1,652,941</u>	<u>1,652,941</u>	<u>681,021</u>	<u>(971,920)</u>
EXPENDITURES				
General Government	7,200	10,800	10,800	
General Health and Sanitation	27,000	27,000	1,256	25,744
Transportation Facilities and Services	8,000	8,770	7,860	910
Roads	995,400	1,028,311	873,233	155,078
Other Transportation Facilities and Services	700	700	650	50
Capital Projects	850,000	850,000	1,520	848,480
Administration	261,250	223,969	104,305	119,664
Total Expenditures	<u>2,149,550</u>	<u>2,149,550</u>	<u>999,624</u>	<u>1,149,926</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(496,609)</u>	<u>(496,609)</u>	<u>(318,603)</u>	<u>178,006</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	158,863	158,863	-	(158,863)
Transfers To Other Funds	(62,254)	(62,254)	(62,254)	-
Total Other Financing Sources (Uses)	<u>96,609</u>	<u>96,609</u>	<u>(62,254)</u>	<u>(158,863)</u>
Net Changes in Fund Balances	(400,000)	(400,000)	(380,857)	19,143
Fund Balances - Beginning	<u>400,000</u>	<u>400,000</u>	<u>1,341,592</u>	<u>941,592</u>
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 960,735</u>	<u>\$ 960,735</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 73,150	\$ 73,150	\$ 90,119	\$ 16,969
Charges for Services	14,000	14,000	11,058	(2,942)
Miscellaneous	700	700	868	168
Interest	10,500	10,500	9,759	(741)
Total Revenues	<u>98,350</u>	<u>98,350</u>	<u>111,804</u>	<u>13,454</u>
EXPENDITURES				
Protection to Persons and Property	658,100	682,837	675,439	7,398
Administration	25,200	463	56	407
Total Expenditures	<u>683,300</u>	<u>683,300</u>	<u>675,495</u>	<u>7,805</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(584,950)</u>	<u>(584,950)</u>	<u>(563,691)</u>	<u>21,259</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>554,950</u>	<u>554,950</u>	<u>525,000</u>	<u>(29,950)</u>
Total Other Financing Sources (Uses)	<u>554,950</u>	<u>554,950</u>	<u>525,000</u>	<u>(29,950)</u>
Net Changes in Fund Balances	(30,000)	(30,000)	(38,691)	(8,691)
Fund Balances - Beginning	<u>30,000</u>	<u>30,000</u>	<u>514,771</u>	<u>484,771</u>
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 476,080</u>	<u>\$ 476,080</u>

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	NET PROFIT FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,000,000	\$ 1,000,000	\$ 1,141,174	\$ 141,174
Interest	18,000	18,000	29,875	11,875
Total Revenues	1,018,000	1,018,000	1,171,049	153,049
EXPENDITURES				
General Government	40,200	40,200	33,541	6,659
Administration	10,200	10,200		10,200
Total Expenditures	50,400	50,400	33,541	16,859
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	967,600	967,600	1,137,508	169,908
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(1,147,244)	(1,147,244)	(925,000)	222,244
Total Other Financing Sources (Uses)	(1,147,244)	(1,147,244)	(925,000)	222,244
Net Changes in Fund Balances	(179,644)	(179,644)	212,508	392,152
Fund Balances - Beginning	400,000	400,000	1,207,682	807,682
Fund Balances - Ending	\$ 220,356	\$ 220,356	\$ 1,420,190	\$ 1,199,834

MERCER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**MERCER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

MERCER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	Local Government Economic Assistance Fund	Landfill Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 115,542	\$ 50,221	\$ 165,763
Total assets	<u>115,542</u>	<u>50,221</u>	<u>165,763</u>
FUND BALANCES			
Reserve for:			
Encumbrances		335	335
Landfill		49,886	49,886
Unreserved:			
Special Revenue Fund	115,542		115,542
Total Fund Balances	<u>\$ 115,542</u>	<u>\$ 50,221</u>	<u>\$ 165,763</u>

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MERCER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENT FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

MERCER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENT FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Local Government Economic Assistance Fund	Landfill Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 57,533	\$ 35,714	\$ 93,247
Charges for Services		9,414	9,414
Miscellaneous		49,784	49,784
Interest	616	271	887
Total Revenues	<u>58,149</u>	<u>95,183</u>	<u>153,332</u>
EXPENDITURES			
General Health and Sanitation		235,644	235,644
Administration		105	105
Total Expenditures	<u>-</u>	<u>235,749</u>	<u>235,749</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>58,149</u>	<u>(140,566)</u>	<u>(82,417)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds		125,000	125,000
Total Other Financing Sources (Uses)		<u>125,000</u>	<u>125,000</u>
Net Change in Fund Balances	58,149	(15,566)	42,583
Fund Balances - Beginning (Restated)	57,393	65,787	123,180
Fund Balances - Ending	<u>\$ 115,542</u>	<u>\$ 50,221</u>	<u>\$ 165,763</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE SUITE C
LOUISVILLE, KY 40243

BUSINESS: (502) 245-0775

FAX: (502) 245-0725

E-MAIL: wtichenor@tichenorassociates.com

Honorable John D. Trisler, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 15, 2005. Mercer County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mercer County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

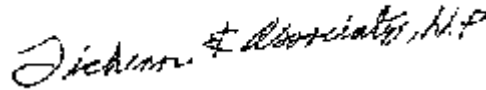
Compliance And Other Matters

As part of obtaining reasonable assurance about whether Mercer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use management and the Kentucky Governor's Office for Local Developments and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

Tichenor & Associates, LLP

Audit fieldwork completed -
December 15, 2005

**CERTIFICATION OF COMPLIANCE-
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MERCER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MERCER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2005

The Mercer County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, appearing to read "John D. Husk", written over a horizontal line.

Name

County Judge/Executive

A handwritten signature in cursive script, appearing to read "Gayle Horn", written over a horizontal line.

Name

County Treasurer